Financial Analysis Fundamentals

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Learning Objectives

Undertake a comprehensive financial analysis using a wide range of ratios.

Use ratios to analyze the income statement and profitability.

Look at ratios to analyze operating assets and asset utilization.

Analyze capital structure with ratios.

Recommend how a business can improve operations, capital structure, and asset utilization.

Use the DuPont pyramid of ratios to get a more comprehensive view of a business.

Profitability and Return Ratio Analysis

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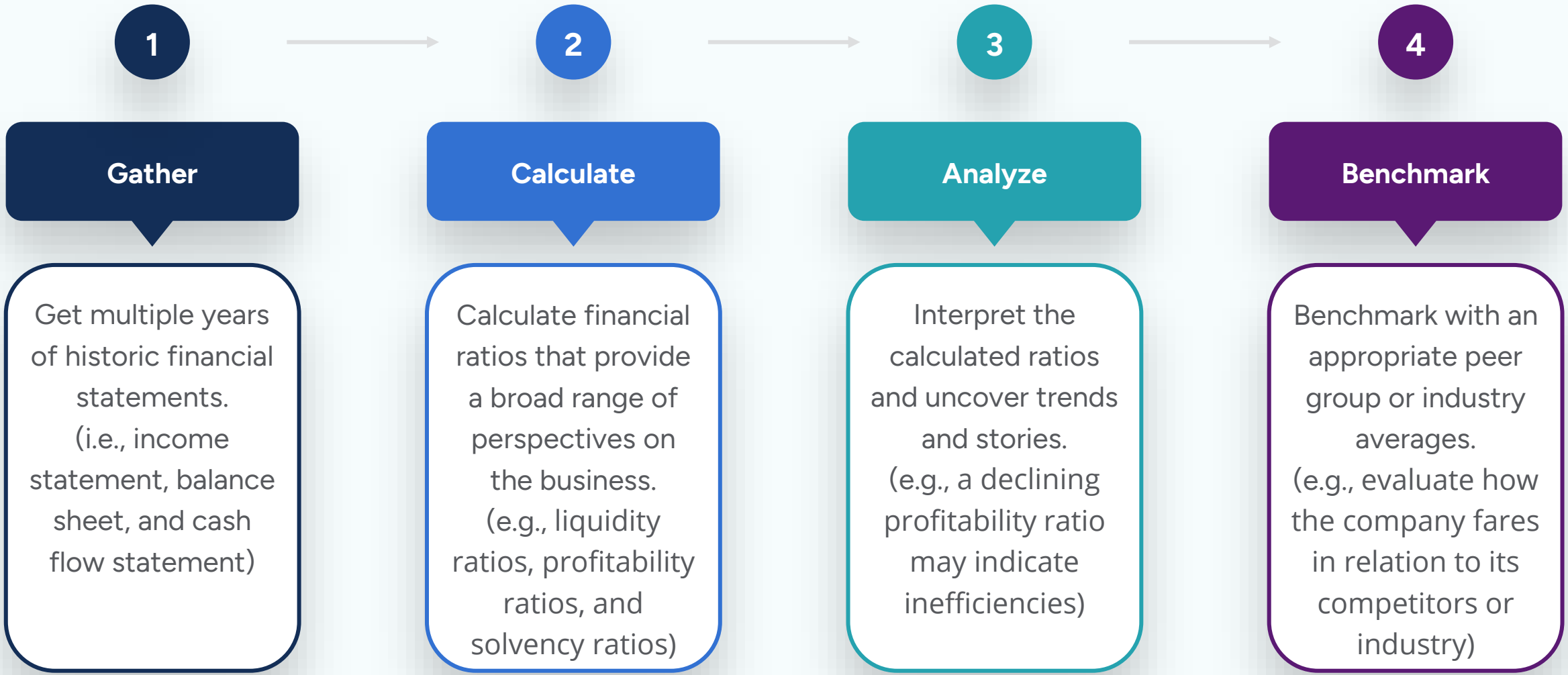
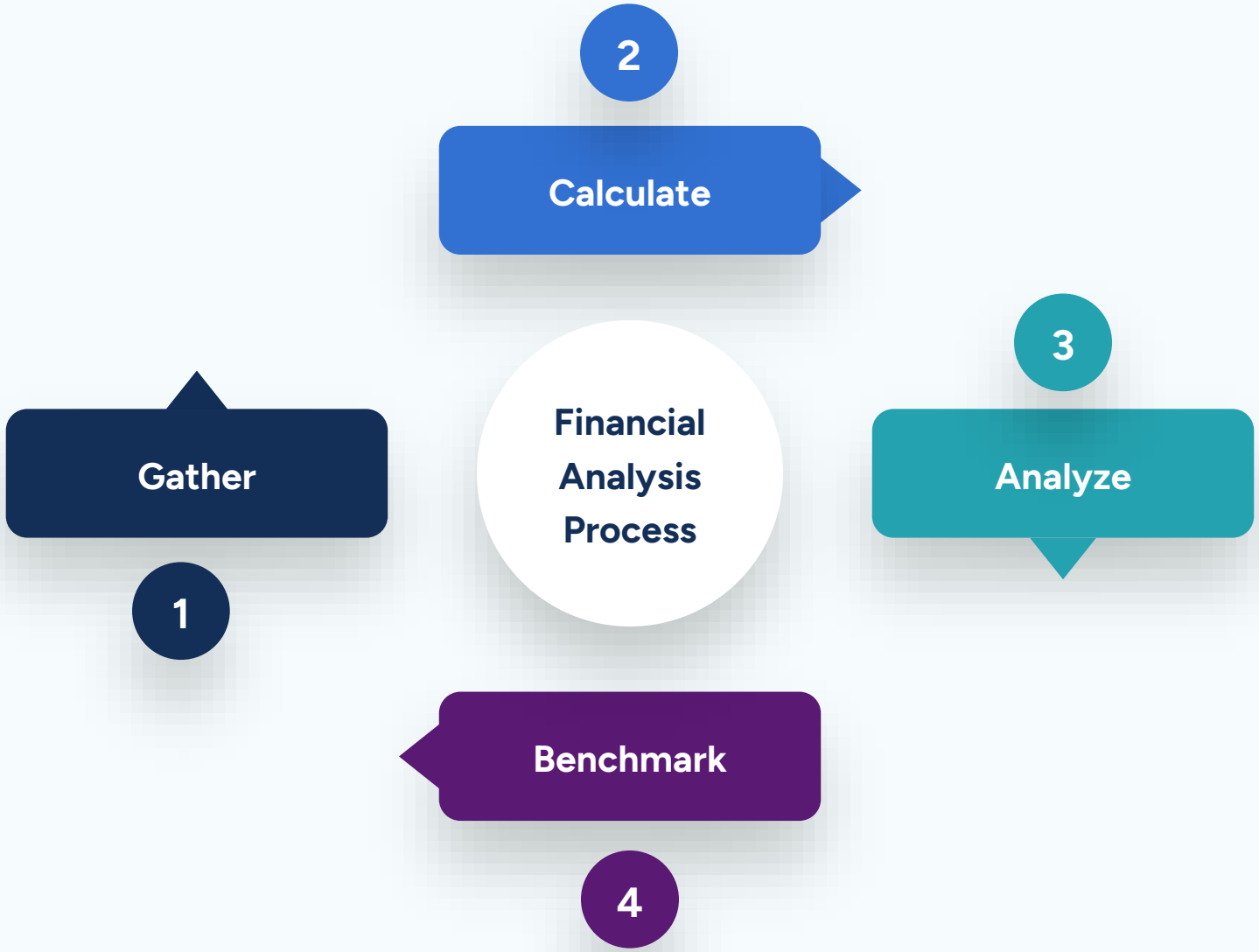
What Is Best Practice Financial Analysis


1
Gather
Get multiple years of historic financial statements. (i.e., income statement, balance sheet, and cash flow statement)
2
Calculate
Calculate financial ratios that provide a broad range of perspectives on the business. (e.g., liquidity ratios, profitability ratios, and solvency ratios)
3
Analyze
Interpret the calculated ratios and uncover trends and stories. (e.g., a declining profitability ratio may indicate inefficiencies)
4
Benchmark
Benchmark with an appropriate peer group or industry averages. (e.g., evaluate how the company fares in relation to its competitors or industry)

What Is Best Practice Financial Analysis



Critical Tips for Effective Financial Analysis

- Gather a minimum of five years of historic financial performance to better identify trends over time

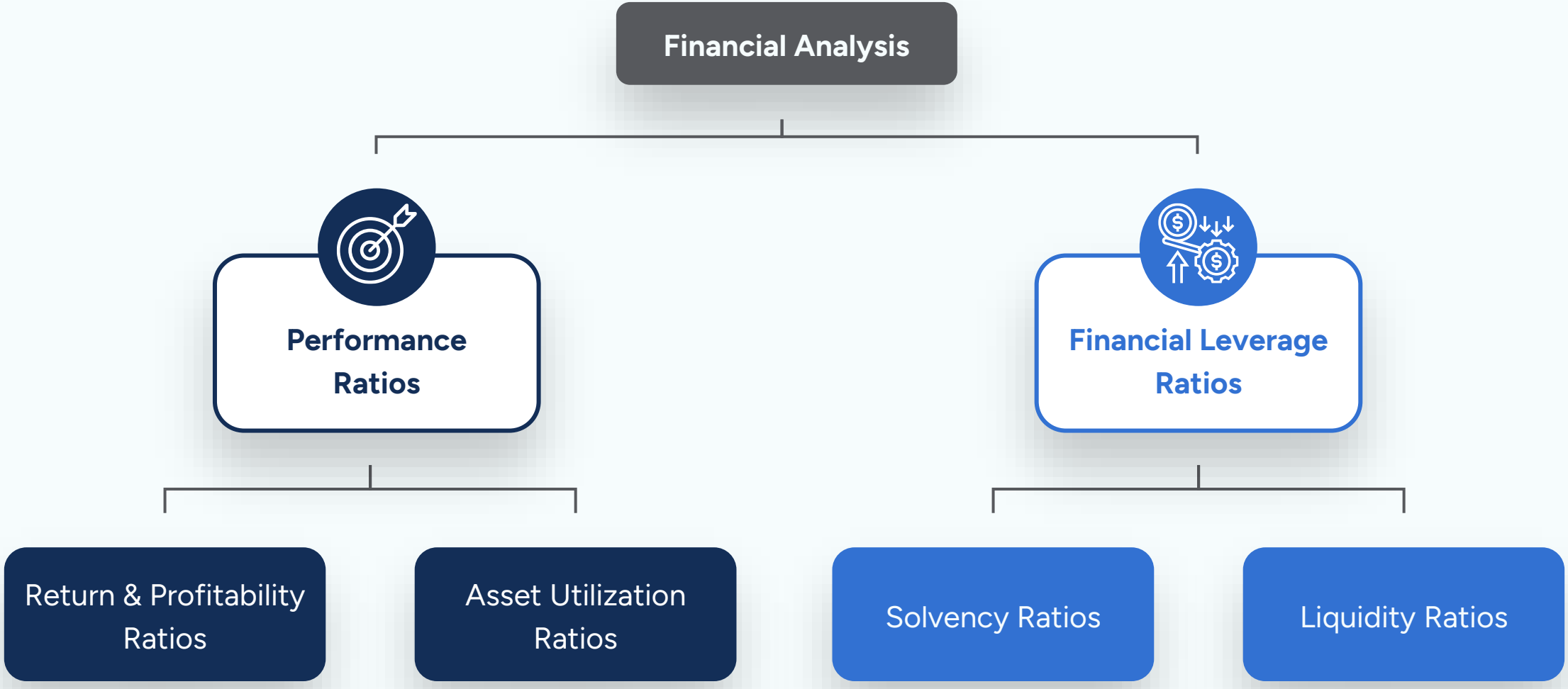
- Make your calculations in Excel transparent so that you can trace from financial statements to ratios

- Need to identify an appropriate peer group, which is harder than it looks, as it is hard to find two companies that are similar

- Keep adjustments of ratios to a minimum, as there is more room for error to creep in

- Averages are typically more academically sound, but in practice, virtually everyone uses closing balances

Financial Analysis Ratio Categories



Quick Recap of the Three Financial Statements

Let's do a quick recap of the three financial statements.

Income Statement

- Revenues
- Expenses
- Profit or loss

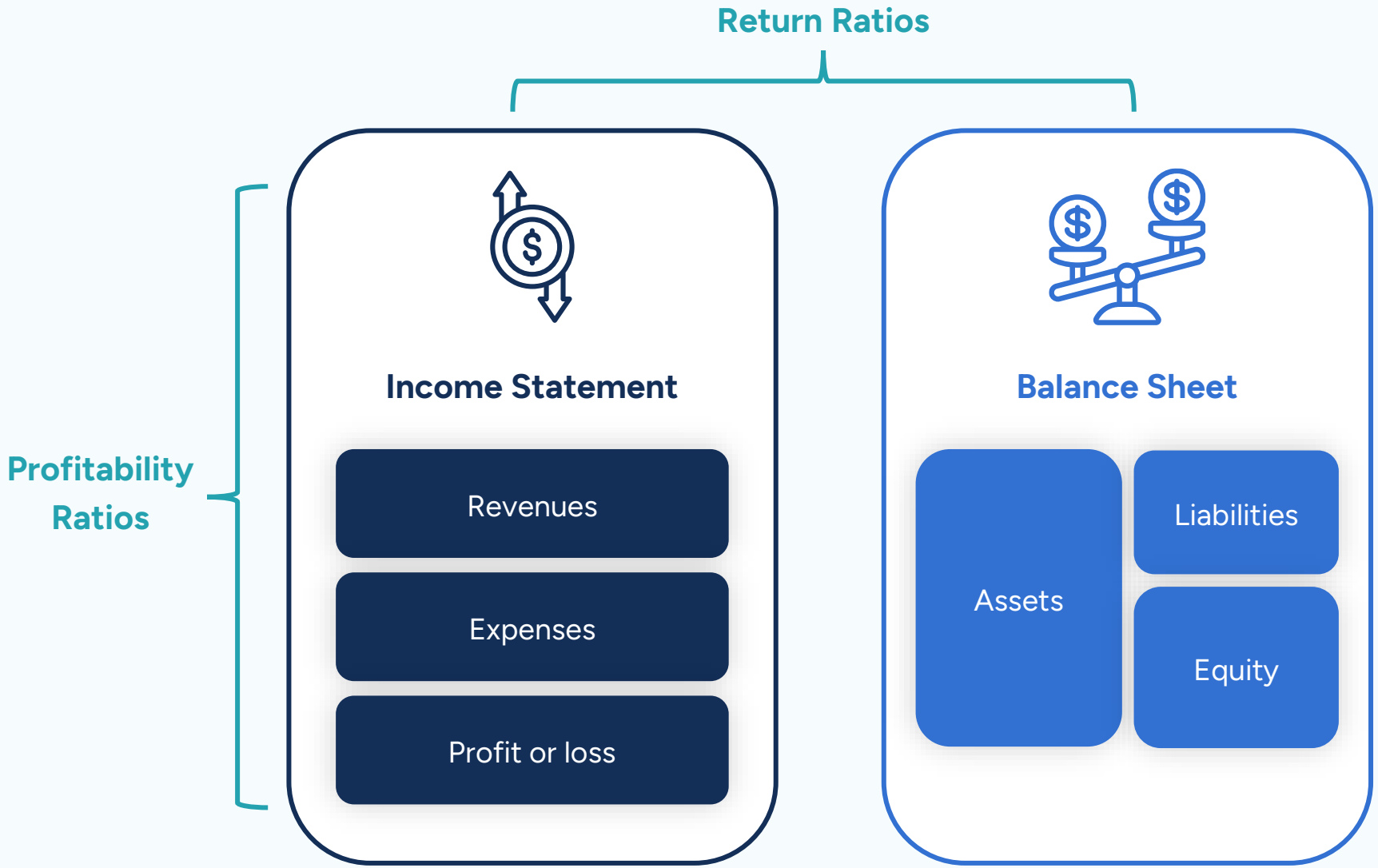
Balance Sheet

- Assets
- Liabilities
- Equity

Statement of Cash Flows

- Operating
- Investing
- Financing

Quick Recap of the Three Financial Statements



Return Ratios

Return ratios are essential for **evaluating investment returns.**

ROA
(Return on Assets)

Net Income

Total Assets

ROE
(Return on Equity)

Net Income

Total Shareholders' Equity

ROIC
(Return on Invested Capital)

Net Operating Profit After Tax

Net Debt + Equity

NOPAT = EBIT x (1 – Tax Rate)

Return Ratios

Finding Comparables

It is important to ensure that the **metrics being compared** are of the **same nature and relevance.**

ROE
(Return on Equity)

Profit that belongs to **shareholders**

Net Income

Total Shareholders' Equity

Divide net income by **equity**

Focuses on returns generated for **equity investors.**

Return Ratios

Finding Comparables

It is important to ensure that the **metrics being compared** are of the **same nature and relevance.**

ROIC
(Return on Invested Capital)

Profit that belongs to **debtholders** and **shareholders**

Net Operating Profit After Tax

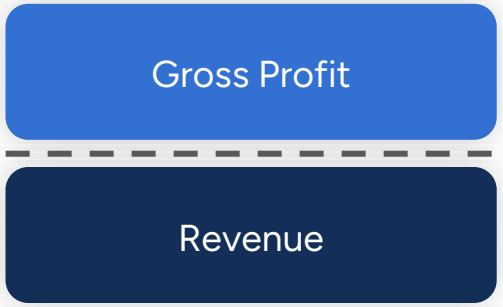
Net Debt + Equity

Divide by **net debt** and **equity**

Calculates a profit figure that excludes interest expenses, representing the **returns to debtholders.**

Profitability Ratios

Gross Profit Margin



For these profitability ratios, the **higher the percentage, the better.**

Income Statement

Revenues (i.e., Sales, Turnover)

Direct operating costs

Indirect operating costs

Gross profit

EBITDA
Earnings before interest, taxes, depreciation, and amortization

Depreciation and amortization

EBIT
Earnings before interest & taxes

Cost of debt financing

EBT
Earnings before taxes

Taxes

Net income

Profitability Ratios

Expense Ratio Examples

Direct Operating Costs

Revenue

or

Indirect Operating Costs

Revenue

Income Statement

Revenues (i.e., Sales, Turnover)

Direct operating costs

Indirect operating costs

Depreciation and amortization

Cost of debt financing

Taxes

Net income

Profitability ratios can also **compare individual expense lines** to revenues.

For these expense ratios, the **lower the number, the better.**

Additional Tax Ratios

Effective Tax Rate

Total Taxes

Earnings Before Tax

This ratio shows how well a company **manages its taxes.**

Tax Burden

Net Income

Earnings Before Tax

This ratio shows how much is **left for shareholders after taxes.**

Example

Tax Burden = 70%

Shareholders are receiving **70% of earnings before tax.**

Effective Tax Rate = 100% - 70%

Effective Tax Rate = 30%

Additional Interest Ratios

Effective Interest Rate

$$\frac{\text{Total Interest Expense}}{\text{Total Interest Bearing Liabilities}}$$

It is **crucial** to use the **gross interest expense.**

When using balance sheet figures, some analysts will look at **averages over two years.**

→

In this course, we are using the **current year's balance sheet accounts.**

Interest Burden

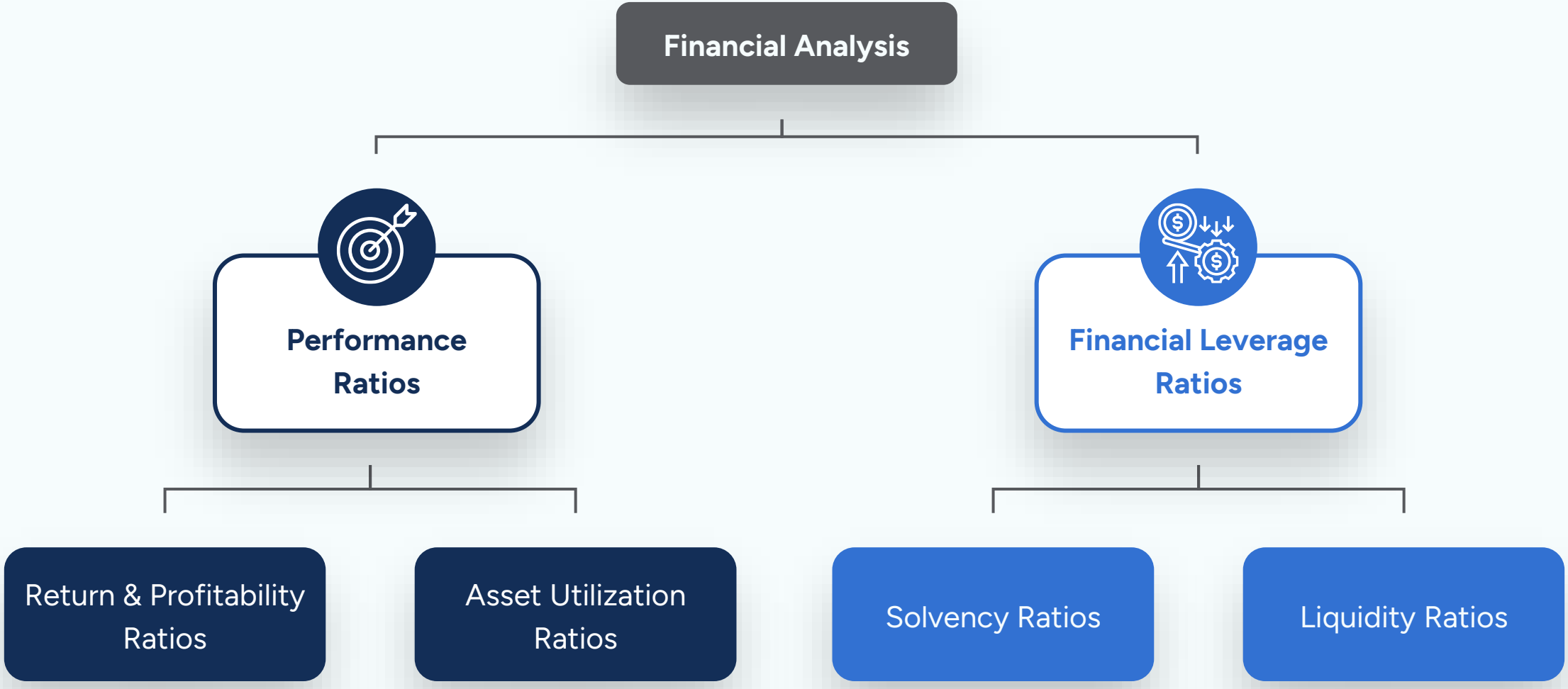
$$\frac{\text{Earnings Before Tax}}{\text{Earnings Before Interest and Tax}}$$

Example

If you get a number like 65%, it means **earnings before tax is 65% of EBIT** or that 35% of EBIT is eaten up by interest expenses.

Asset Utilization Analysis

Introduction to Asset Utilization Ratios



Introduction to Asset Utilization Ratios

When using balance sheet figures, some analysts will look at **averages over two years.**

However two-year averages are rarely used, and it is **quicker and easier to use the current year.**

Most analysts focus on **total assets, cash, accounts receivable, PP&E, and accounts payable.**

Asset Turnover Ratios

Asset Turnover

$$\frac{\text{Revenues}}{\text{Total Assets}}$$

This ratio shows how efficiently a company uses all assets to produce sales.

PP&E Turnover

$$\frac{\text{Revenues}}{\text{Property, Plant \& Equipment}}$$

This ratio shows how efficiently a company strictly uses its PP&E to generate sales.

Example

Asset Turnover = 1.27x (Not 127%)
PP&E Ratio = 1.52x

For every dollar invested in assets, the business gets **$1.27 of annual revenue.**

For every dollar invested strictly in PP&E, the business gets **$1.52 of annual revenue.**

For these ratios, the **larger the better.**

Cash Turnover and Days

Cash Turnover

$$\text{Cash Turnover} = \frac{\text{Revenues}}{\text{Cash}}$$

This ratio reveals the number of times cash is turned over in a period.

Cash Days

$$\text{Cash Days} = \frac{\text{Cash} \times 365}{\text{Revenues}}$$

This ratio shows how many days cash turns over or how many days cash reserves cover no revenue.

Example

Cash Turnover = 40x

For every dollar we have in cash, we generate $40 of revenue.

Cash Days = 365 / 40 = 9.125 days

The current cash turns over every 9.125 days.

Generally, **a low number is better,** but cash days are driven by industry factors.

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A/R Turnover and Days

A/R Turnover

$$\frac{\text{Revenues}}{\text{Accounts Receivable (A/R)}}$$

Measures how efficiently a company is collecting revenue and using assets.

A/R Days

$$\frac{\text{A/R} \times 365}{\text{Revenues}}$$

Shows the average number of days that it takes a customer to pay the company for sales on credit.

Example

A/R Turnover = 12x

For every dollar in accounts receivable, the company generates $12 of revenue.

A/R Days = 365 / 12 = 30 days

Customers take 30 days on average to pay the company.

Generally, the **higher the A/R turnover or lower A/R days, the better,** but industries offer different standard credit terms.

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Inventory Turnover and Days

Inventory Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

Shows the number of times a business sells and replaces its stock of goods during a period.

Inventory Days

$$\frac{\text{Inventory} \times 365}{\text{Cost of Goods Sold}}$$

Shows the average number of days a year it takes a company to sell and replace its inventory.

Inventory Turnover and Days

Inventory Turnover

$$\frac{\text{Revenues}}{\text{Inventory}}$$

Shows the number of times a business sells and replaces its stock of goods during a period.

Inventory Days

$$\frac{\text{Inventory} \times 365}{\text{Revenues}}$$

Shows the average number of days a year it takes a company to sell and replace its inventory.

Revenue can be **used as the numerator** of the inventory turnover ratio.

Inventory Turnover and Days

Inventory Turnover

$$\frac{\text{Revenues}}{\text{Inventory}}$$

Shows the number of times a business sells and replaces its stock of goods during a period.

Inventory Days

$$\text{Inventory} \times 365 \div \text{Revenues}$$

Shows the average number of days a year it takes a company to sell and replace its inventory.

Revenue can be **used as the numerator** of the inventory turnover ratio.

It is more precise to use **cost of goods sold.**

It represents **what was paid for inventory**, so it is more accurate.

Inventory Turnover and Days

Inventory Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

Shows the number of times a business sells and replaces its stock of goods during a period.

Inventory Days

$$\frac{\text{Inventory} \times 365}{\text{Cost of Goods Sold}}$$

Shows the average number of days a year it takes a company to sell and replace its inventory.

Example

Inventory Turnover = 4x

This means inventory turns over only 4 times a year.

Inventory Days = 365 / 4 = 91.25 days

The inventory is sold and replaced every 91.25 days.

Higher inventory turnover or lower inventory days is generally better, but it is business-dependent.

A/P Turnover and Days

A/P Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$$

Measures how many times a company is able to pay its creditors over a period of time.

A/P Days

$$\frac{\text{A/P} \times 365}{\text{Cost of Goods Sold}}$$

Shows the average number of days that it takes a company to pay its creditors.

A/P Turnover and Days

A/P Turnover

Revenues

Accounts Payable

Measures how many times a company is able to pay its creditors over a period of time.

A/P Days

A/P × 365

Revenues

Shows the average number of days that it takes a company to pay its creditors.

Some analysts use **revenues** in the A/P Turnover ratio

It is more precise to use **cost of goods sold.**

It represents **the price we need to pay our suppliers.**

A/P Turnover and Days

A/P Turnover

$$\frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$$

Measures how many times a company is able to pay its creditors over a period of time.

A/P Days

$$\text{A/P} \times \frac{365}{\text{Cost of Goods Sold}}$$

Shows the average number of days that it takes a company to pay its creditors.

Example

A/P Turnover = 12x

This means accounts payable gets paid 12 times over a period.

A/P Days = 365 / 12 = 30 days

Accounts payable gets paid roughly every 30 days.

Generally, the **higher the A/P turnover or lower A/P days, the better** because it indicates high creditworthiness.

Working Capital Defined

Simple Definition:
Working capital is the difference between a company's **current assets** and **current liabilities.**

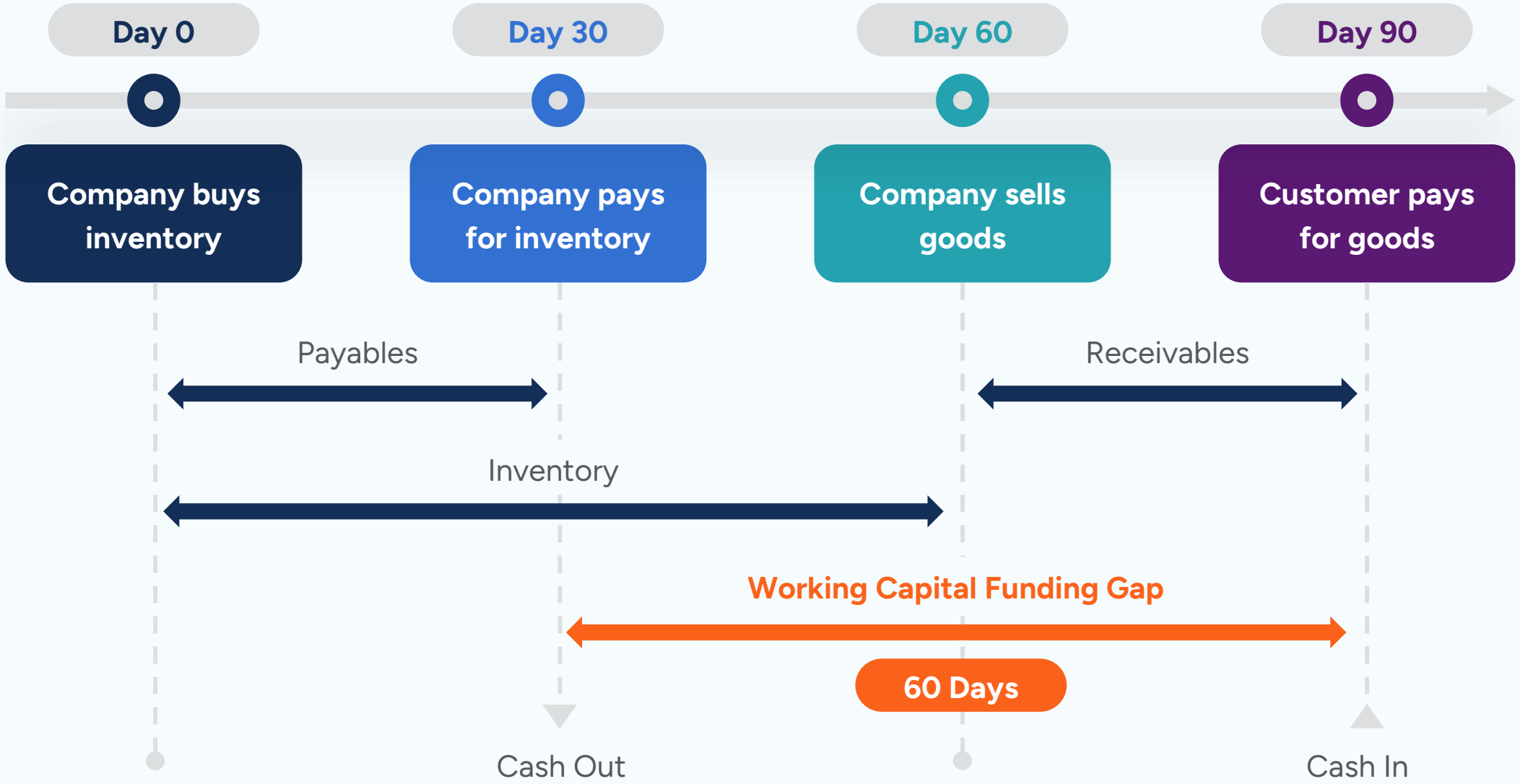
It is important to analyze operational assets and liabilities **without any financing assets and liabilities**

Current Liabilities → **Interest-bearing debt**
Current Assets → **Cash**

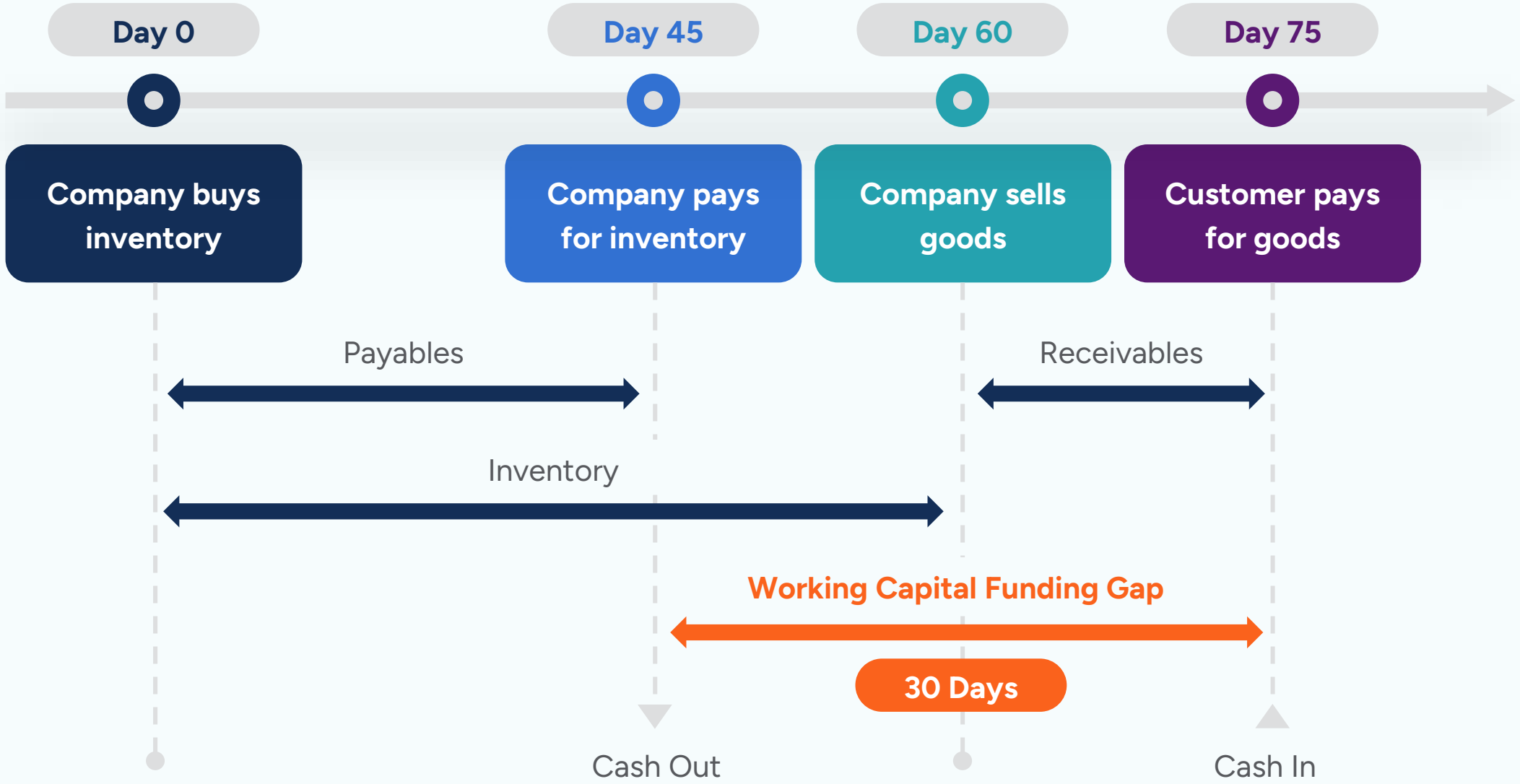
This leaves us with three **operational assets/liabilities: Accounts receivable, inventory and accounts payable**

Working Capital = **Accounts Receivable** + **Inventory** − **Accounts Payable**

Combining Working Capital Days Ratios

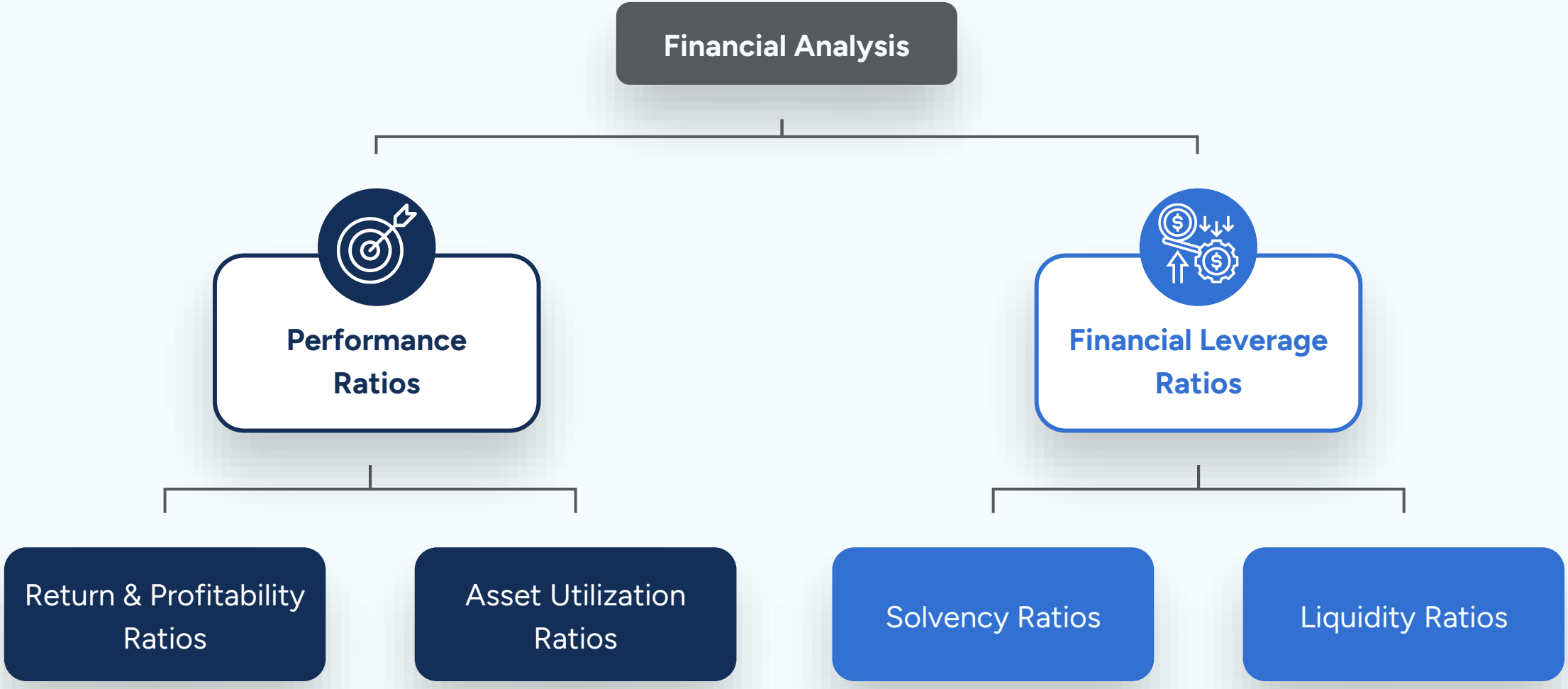


Combining Working Capital Days Ratios



Leverage Analysis

Introduction to Financial Leverage Ratios



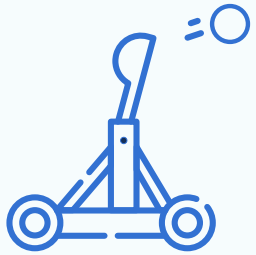
Introduction to Financial Leverage Ratios

- **Solvency Ratios**
  - Focuses on a company's **long-term financial health** and its ability to meet long-term obligations.
- **Liquidity Ratios**
  - Liquidity ratios assess the company's **short-term cash position** and its ability to handle immediate financial needs and obligations.

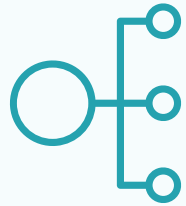
What Is Leverage

The amount of **interest-bearing debt funding** a business relative to its **equity funding.**

A company loads the catapult with **its own funds**, while the **debt funding** acts as the extra tension mechanism.



Financial leverage empowers a company to **propel its growth and profitability** to new heights.



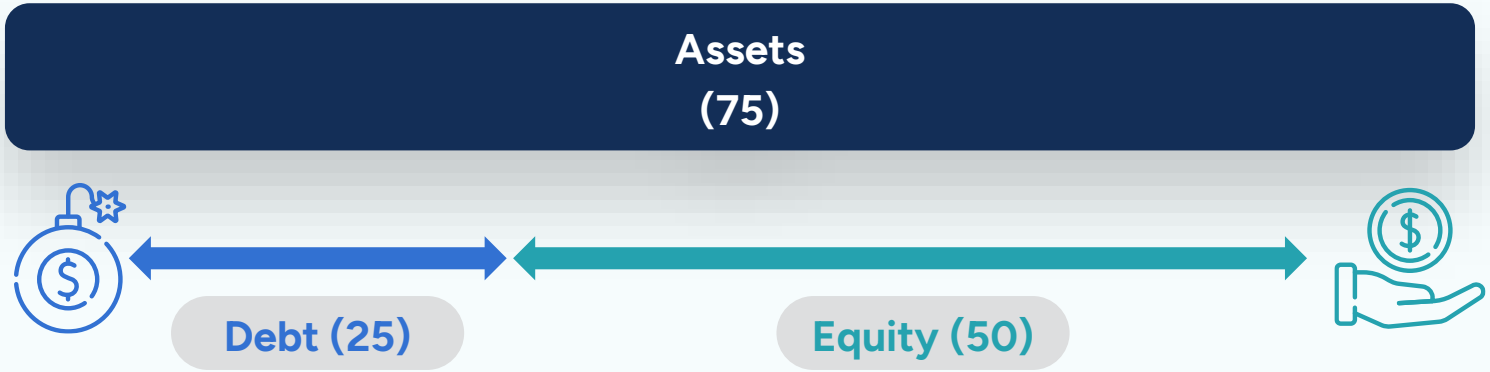
This combination of resources enables a company to catapult ahead **(expansion, investment, and market presence.)**

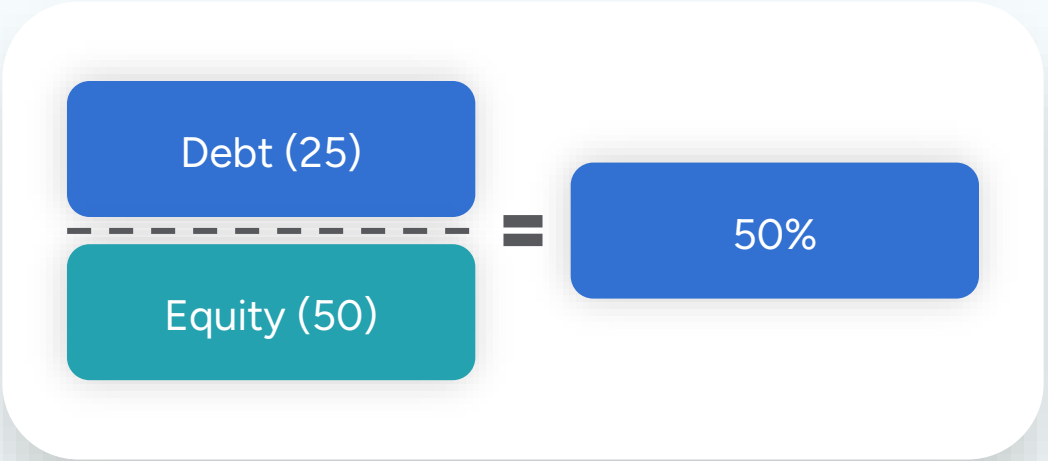
What Is Leverage

Financial leverage **increases when a company takes on more debt financing** relative to its equity financing.

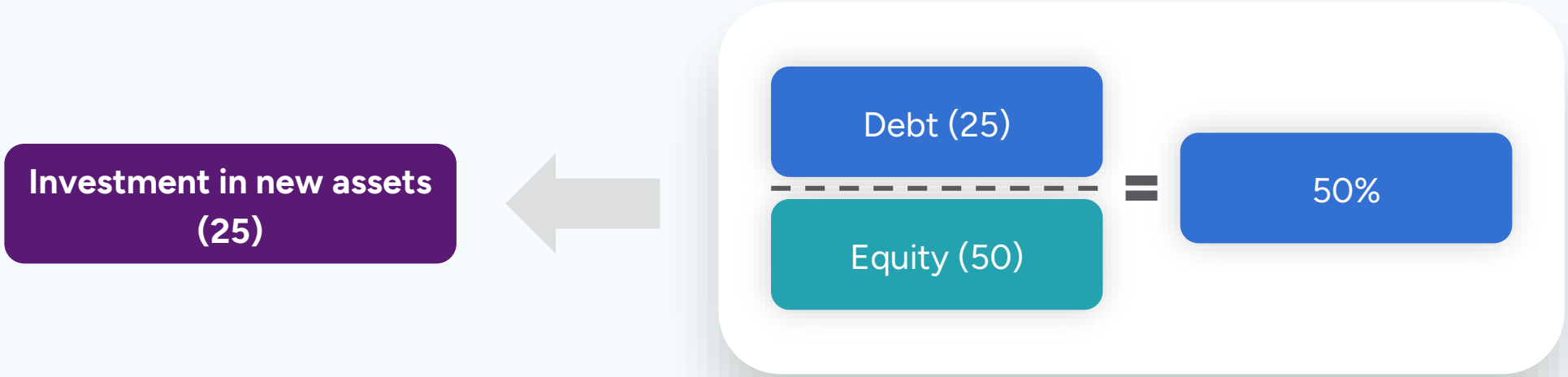
Another name for “financial leverage” is **“financial gearing.”**

Example of Low Leverage





Example of Low Leverage



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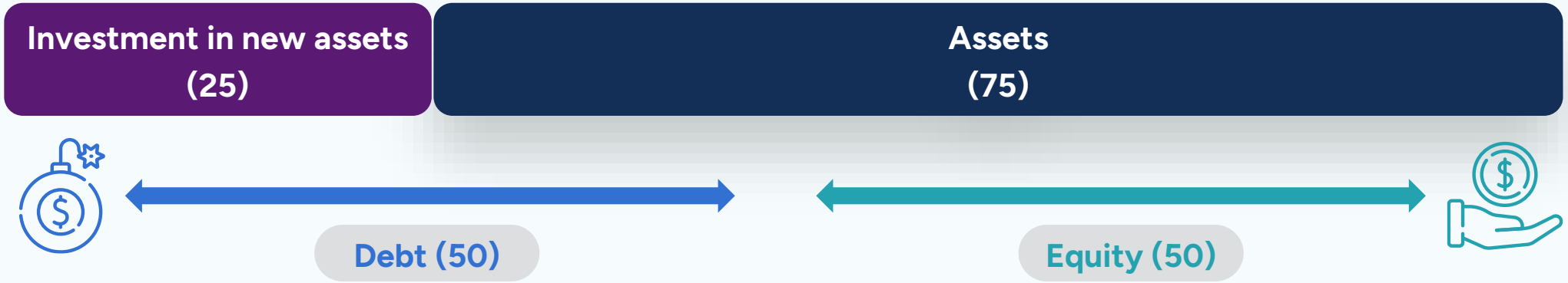
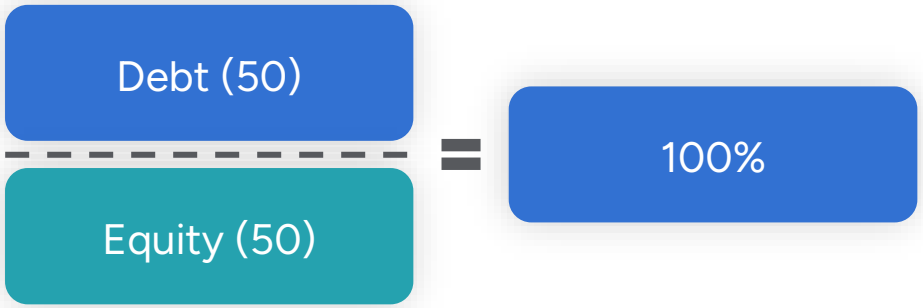


The company has **increased its financial leverage** or **financial gearing.**



Why Increase Debt Rather Than Equity

There are several reasons why a company may choose to increase debt rather than equity.

Retaining Ownership Control

By relying more on debt financing, a company can **raise funds without diluting the ownership stake** of existing shareholders.

Cost of Capital

Depending on the prevailing interest rates and market conditions, debt financing can be **cheaper than issuing additional equity.**

Flexibility

Debt financing allows a company to **maintain flexibility in capital structure as it has a defined repayment schedule,** providing a company with a clear timeline.

Timing and Availability

Debt financing may be **more readily available and quicker to secure** compared to equity financing, which often involves more extensive processes.

Tax Advantage

Interest payments on debt are **typically tax-deductible,** while dividends paid to equity shareholders are not.

The Sweet Spot – Optimal Leverage

Optimal financial leverage for a company is the level of debt or borrowed funds that strikes a balance between **maximizing potential returns and minimizing financial risks.**

Risk Tolerance

Be aware of a company's risk tolerance and its ability to handle debt obligations.

Industry & Business Characteristics

Understand specific dynamics of the industry in which the company operates.

Cash Flow & Profitability

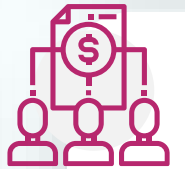
Analyze a company's cash flow generation capacity and profitability.

Growth Opportunities

Consider the company's growth prospects, investment plans, and capital requirements.

Interest Rates & Market Conditions

Evaluate prevailing interest rates and overall market conditions.



Shareholder Expectations

Understand the expectations of shareholders, such as dividend payments and capital appreciation.

The Sweet Spot – Optimal Leverage

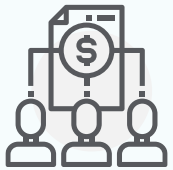
Risk Tolerance

Industry & Business Characteristics

Growth Opportunities

Cash Flow & Profitability

Interest Rates & Market Conditions



Shareholder Expectations

- Financial leverage **varies** and requires **thorough analysis of these factors.**
- Must also understand **company goals, performance, and risk appetite.**
- **Striking the right balance is crucial** to ensure growth and success.

Total Assets and Total Liabilities to Equity Ratios

Assets to Equity

Total Assets

Total Shareholders' Equity

Measures how much of the asset base is funded by equity and indirectly by debt.

Liabilities to Equity

Total Liabilities

Total Shareholders' Equity

This calculation helps analyze a company's capital structure.

Leverage Ratios

Usually, leverage ratios **are quoted as a multiple** rather than as a percent.

Example:

Asset to Equity = 2.5x (not 250%)

Generally, the **smaller** the number, the **better.**

There is typically an **optimal capital structure based on industry.**

Debt to Equity and to Tangible Net Worth Ratios

Debt to Equity

$$\frac{\text{Interest Bearing Liabilities}}{\text{Total Shareholders' Equity}}$$

Allows us to precisely compare a company's debt financing to equity financing.

Debt to Tangible Net Worth

$$\frac{\text{Interest Bearing Liabilities}}{\text{Total Shareholders' Equity} - \text{Intangible Assets}}$$

Regarded as a more conservative measure of a company's financial state.

Debt to Equity and to Tangible Net Worth Ratios

Debt to Tangible Net Worth

Interest Bearing Liabilities

Total Shareholders' Equity – Intangible Assets

Why deduct intangibles?

Deducting intangibles **provides a clearer picture of a company's financial strength** and the tangible value of its assets.

Tangible net worth is a measure that focuses on the **tangible assets** of a company

- Non-physical
- Intellectual rights
- Legal rights

Debt and Net Debt to EBITDA Ratios

Debt to EBITDA

Interest Bearing Debt

EBITDA

Shows how much actual cash flow a company has to cover its debt and other liabilities.

Net Debt to EBITDA

Interest Bearing Debt – Cash

EBITDA

Shows how long a company would need to operate at its current level to pay off all its debt.

Net) Debt to EBITDA Ratios

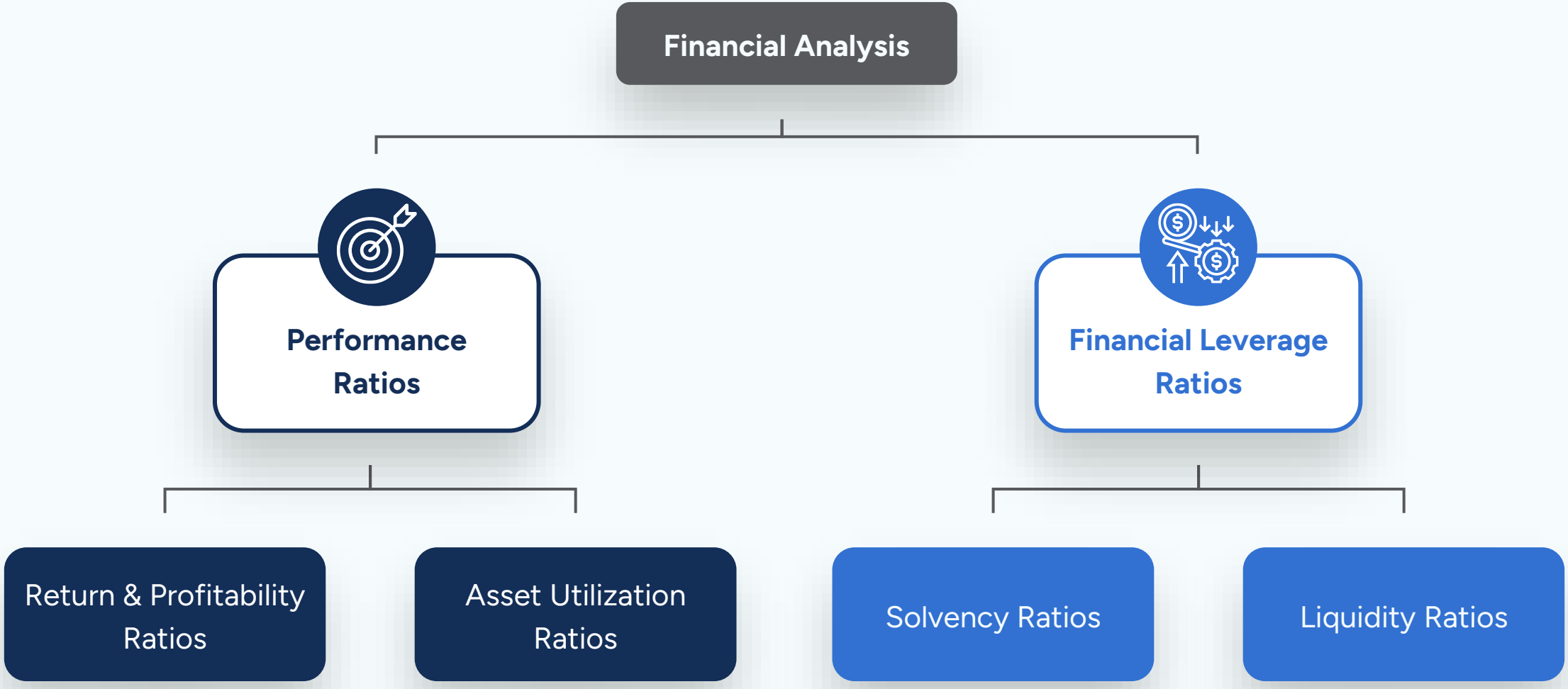
A **high** debt to EBITDA ratio may indicate **higher financial risk.**

A **lower ratio** suggests **lower risk and better debt repayment** capacity.

They are both very popular with **M&A professionals** who typically **use EBITDA multiples to value businesses.**

Liquidity Analysis

Introduction to Liquidity Analysis



Introduction to Liquidity Analysis

Liquidity ratios **assess the company's short-term cash position** and ability to handle immediate financial needs

1. **Current Ratio**
2. **Quick Ratio**
3. **Interest Coverage**

These ratios are generally quoted as multiples.

With **all liquidity ratios, the higher the number, the better,** but there are different benchmarks for different industries.

Financial Analysis

Return & Profitability Ratios

Asset Utilization Ratios

Solvency Ratios

Liquidity Ratios

Current and Quick Ratios

Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Shows how a company can maximize the liquidity of its current assets to settle debt and payables.

Example

A current ratio above 1 indicates a company has more current assets than current liabilities (it has sufficient liquidity to cover short-term obligations).

Quick Ratio

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Measures the ability of a company to pay its short-term liabilities by liquid assets.

Why deduct inventory?

Deducting inventory assesses a company's immediate liquidity without relying on potential inventory sales.

EBITDA to Interest Ratio

EBITDA to Interest (Interest Coverage)

$$\frac{\text{EBITDA}}{\text{Interest Expense}}$$

Assesses a company's ability to cover its interest payments with its earnings before interest, taxes, depreciation, and amortization (EBITDA.)

With **all liquidity ratios, generally the higher the number, the better,** but there are different benchmarks for different industries.

Trend (Horizontal) Analysis

What Is Trend Analysis

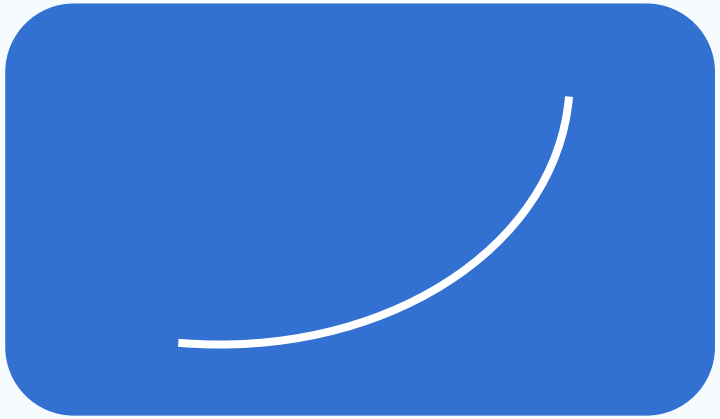
Trend analysis is a **crucial component** of our financial analysis.

Trend analysis (horizontal analysis) involves **comparing results across different periods,** such as months, quarters, or years.

Conducting analyses over multiple years allows trends to emerge, providing valuable **insight for forecasting and future projections.**

Through the examination of historical trends, we gain a better understanding of **how to project future performance.**

What Is Trend Analysis



What Is Trend Analysis

The key is **to assess trends over several years** and use them to make projections about future performance.

This **forward-looking analysis is essential for gaining insights** into the company's prospects.

The Benefit of Visualizing Trends

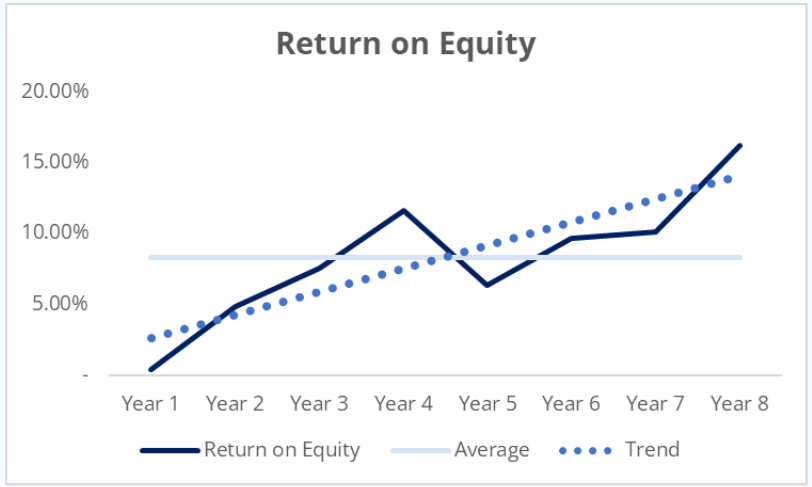
Profitability and Return Ratios

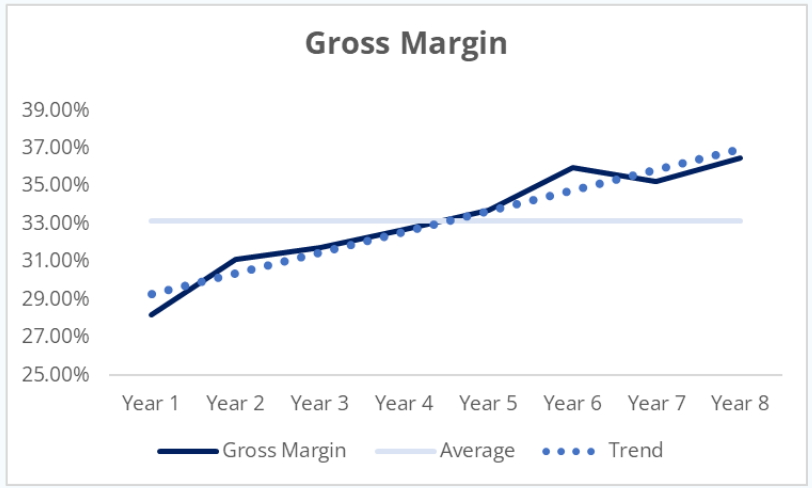
All figures in USD thousands unless stated	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Average
Return on Equity	0.41%	4.81%	7.56%	11.59%	6.32%	9.62%	10.08%	16.20%	8.32%
Average	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	
Gross Margin	28.21%	31.15%	31.72%	32.72%	33.73%	35.97%	35.26%	36.48%	33.15%
Average	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	
EBITDA Margin	5.01%	7.03%	7.84%	8.26%	7.63%	9.98%	9.41%	10.53%	8.21%
Average	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	

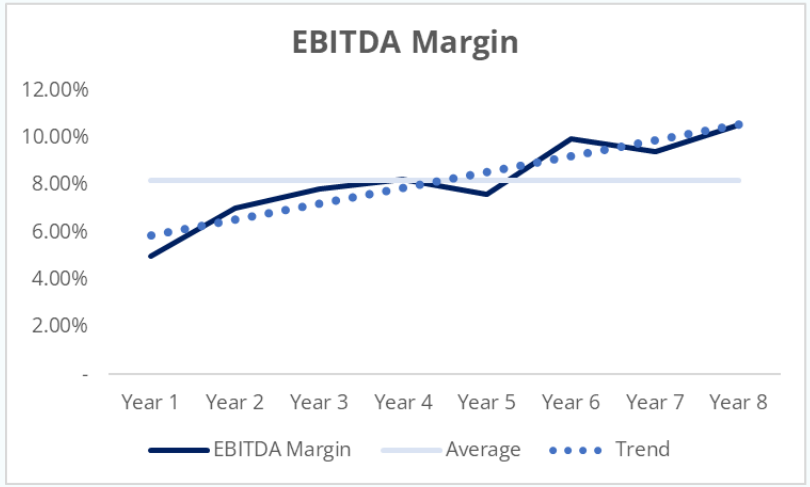
Profitability and Return Ratios

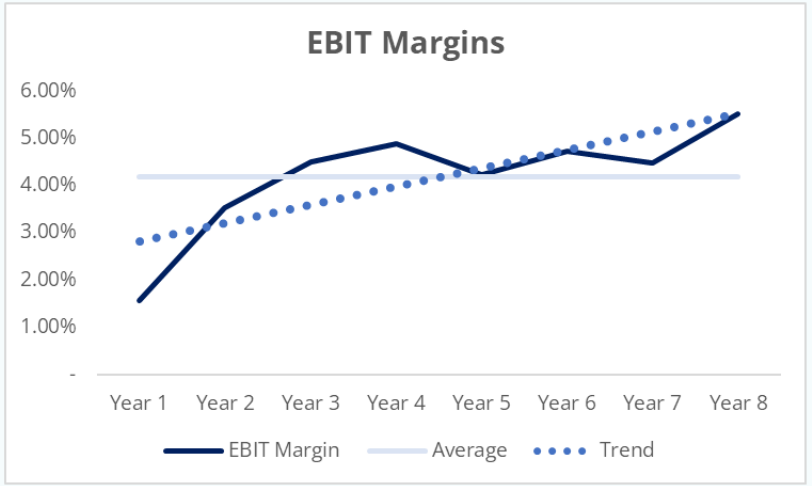
All figures in USD thousands unless stated	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Average
Return on Equity	0.41%	4.81%	7.56%	11.59%	6.32%	9.62%	10.08%	16.20%	8.32%
Average	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	
Gross Margin	28.21%	31.15%	31.72%	32.72%	33.73%	35.97%	35.26%	36.48%	33.15%
Average	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	33.15%	
EBITDA Margin	5.01%	7.03%	7.84%	8.26%	7.63%	9.98%	9.41%	10.53%	8.21%
Average	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	8.21%	

The Benefit of Graphing Trends









Growth Ratios

With growth ratios, the financial analyst should look at revenue, profitability, and asset growth.

Growth Ratios

With growth ratios, the financial analyst should look at revenue, profitability, and asset growth.

Asset Growth

Revenue Growth

Profitability Growth

Analyzing Growth Ratios

Scenario 1:

Assets are growing faster than revenues and profitability.

Interpretation:

Asset utilization or ability to generate revenues is declining.

Growth Ratios

With growth ratios, the financial analyst should look at revenue, profitability, and asset growth.

Asset Growth

Revenue Growth

Profitability Growth

Analyzing Growth Ratios

Scenario 2:

Revenue growth is greater than profitability growth.

Interpretation:

There may be a problem with the management of expenses.

Growth Ratios

With growth ratios, the financial analyst should look at revenue, profitability, and asset growth.

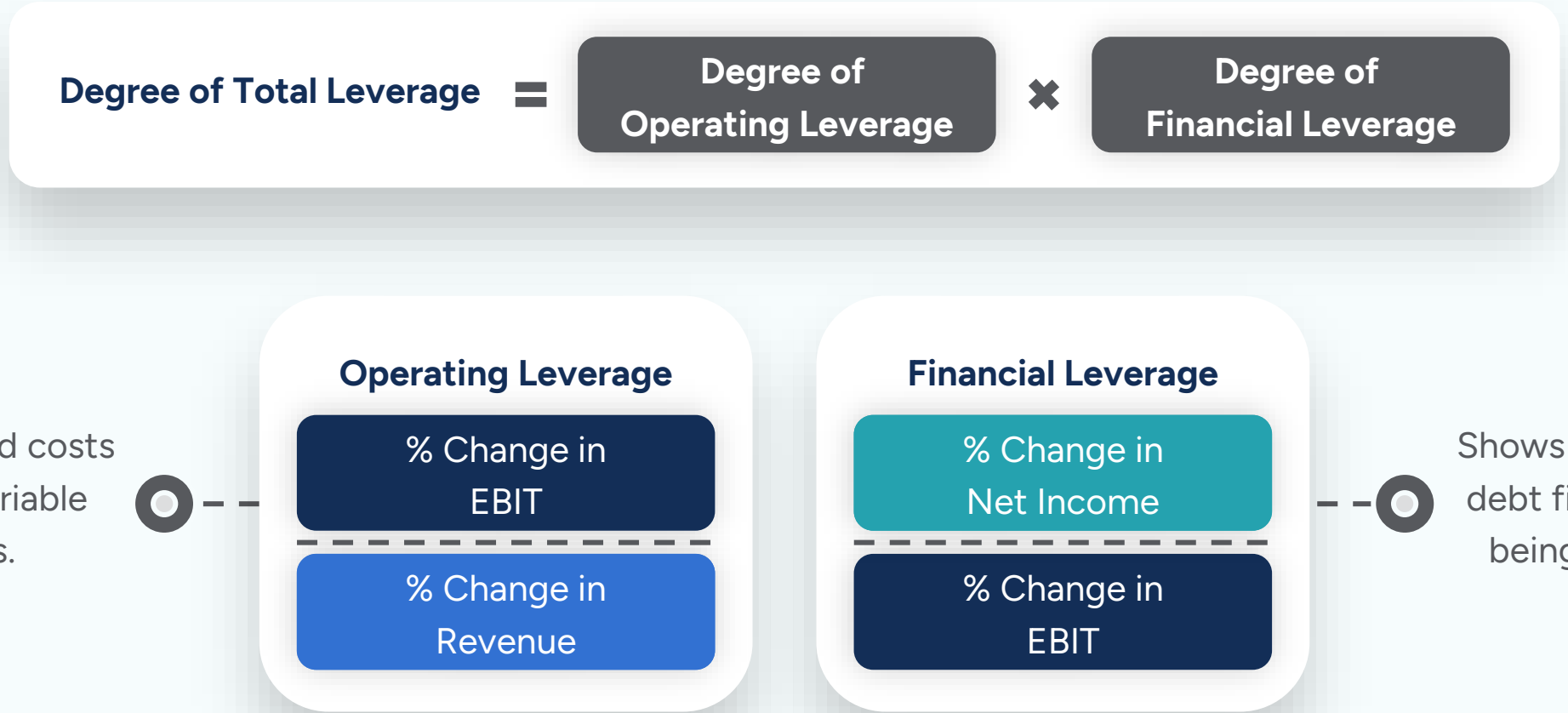
- **Asset Growth**
- **Revenue Growth**
- **Profitability Growth**

Analyzing Growth Ratios

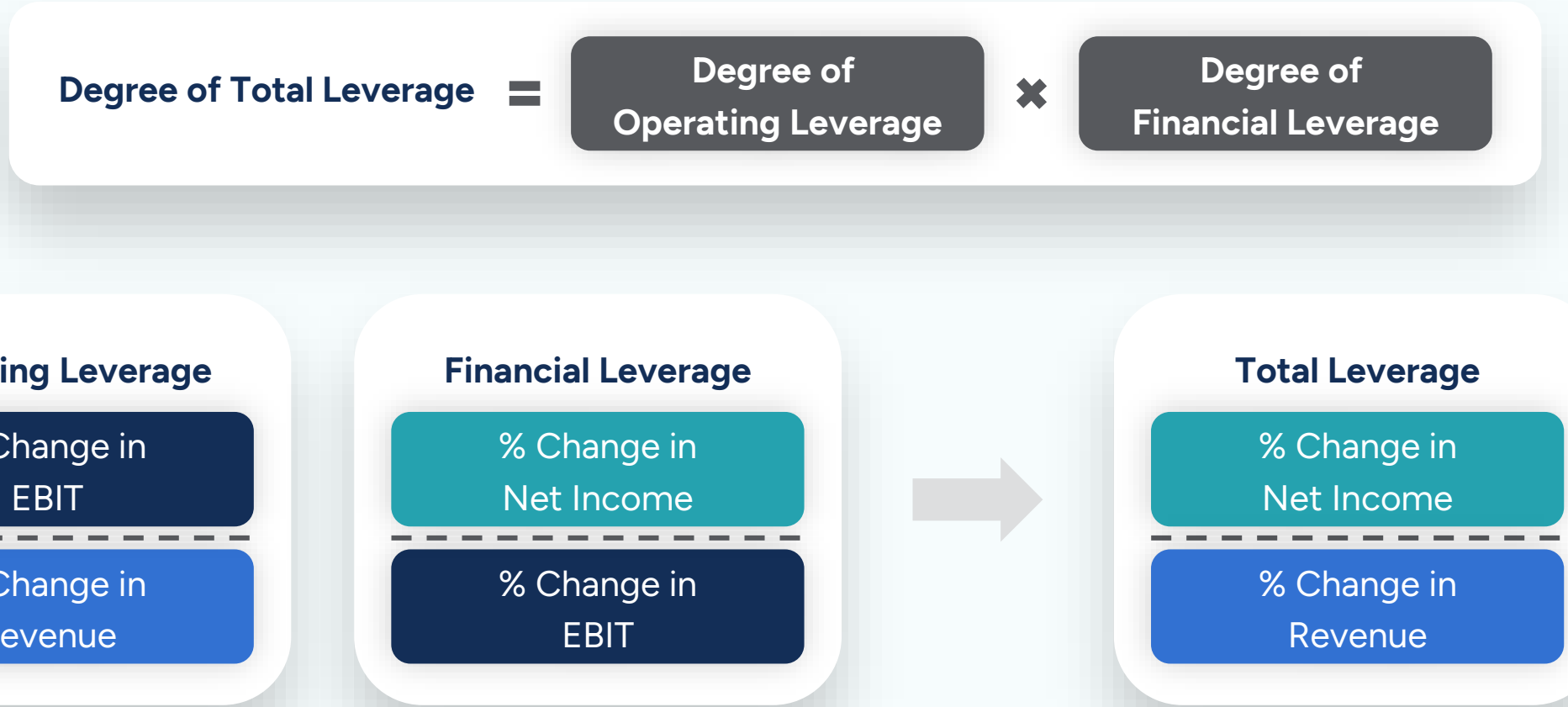
Scenario 3:
Asset growth leads to greater revenue growth, which leads to even higher profitability growth.

Interpretation:
Ideal scenario indicating good financial management.

Growth and Degree of Leverage



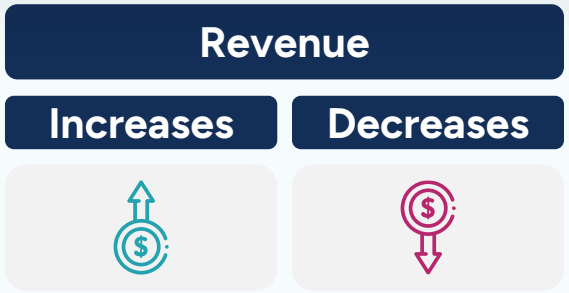
Growth and Degree of Leverage



Operating Leverage and Growth

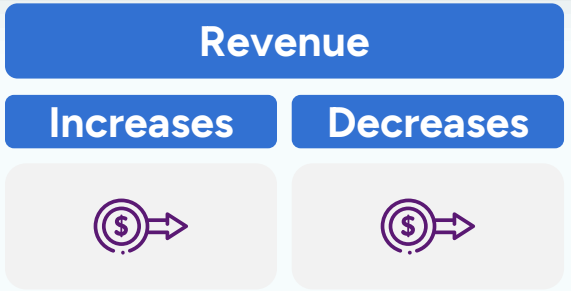
Variable Costs

Costs that **change** depending on the company's production volume.



Fixed Costs

Costs that **do not change** in relation to production volume.



If all costs are variable, then operating profit can only grow at the rate of revenue growth.

If we turn some of these variable costs into fixed costs, we introduce operating leverage.

Financial Leverage and Growth

How can we magnify net profit growth through leverage?

Financial Leverage:
Shows how much debt financing is being utilized.

Debt Utilization:

- Debt comes with interest expense, which **reduces profit.**
- Debt also has a **tax advantage** as interest expense can be deducted for tax purposes.

Peer & Industry Benchmarking

What Is Benchmarking

Financial ratios are valuable tools for assessing a company's performance, but their true significance lies in the context they provide.

Benchmarking

Benchmarking allows us to **compare a company's ratios against those of its peers.**

Peer Group

Benchmarking against a small peer group provides a **focused comparison** among direct competitors.

Industry

Benchmarking against the industry provides a **broader context,** capturing industry trends and performance expectations.

Combination

Both approaches are often used in combination to gain a **comprehensive understanding of performance.**

Industry Benchmarking

Industry benchmarks are **derived from aggregating data from a diverse set** of companies in the sector.

Provides a broader context and helps identify overall **industry trends, challenges, and opportunities.**

Companies **gain a sense of their position within the industry** and understand how their performance compares.

Considers companies of different **sizes, market positions, and operational models.**

Valuable for strategic decision-making (setting long-term goals, identifying areas for growth).

Industry Benchmarking

Peer Group Benchmarking

Peer Group Benchmarking

Compares companies that are **similar in size, market position, and operational characteristics.**

Uncovers specific strengths, weaknesses, and competitive advantages **within a specific market segment.**

Benchmarking against a small peer group **allows for a more granular analysis and comparison.**

Peer groups are **made of direct competitors** or companies operating within the same industry niche.

It is a focused view of **how a company is performing relative to its closest competitors.**

Picking Peer Group for Benchmarking

Picking peers is the most important part of a peer group analysis and **where you should spend the bulk of your time.**

Similar Risks Factors

- You want to identify firms with **similar risk factors** as the firm you are analyzing.

No Peers?

- If there are no peers, **you can look outside of the firm's sector.**

Closest Peers

- The benchmarking should be determined **based on the closest comps.**

Peer Group Benchmarking Checklist

We select peer companies by looking at several key **business and finance characteristics.**

Business Characteristics

- Industry/Sector (Sub-sector)
- Geography
- Product/Services
- Customers
- Distribution network

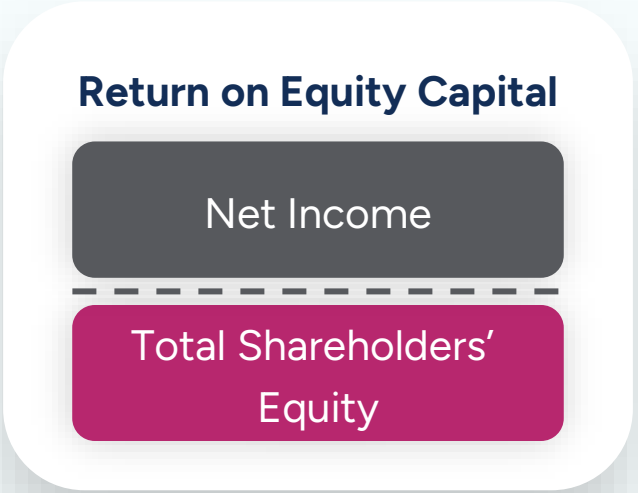
Finance Characteristics

- Size
- Growth
- Margins
- Seasonality/Cyclicality
- Leverage/Credit rating

Pyramid Analysis

Background to the DuPont Pyramid

The DuPont Pyramid of Ratios provides a structured approach to **understanding the factors driving a company's profitability and efficiency.**



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Return on Equity Capital

Net Income

Total Shareholders' Equity

Assess a company's return on equity (ROE) by breaking it down into its key components.

Background to the DuPont Pyramid

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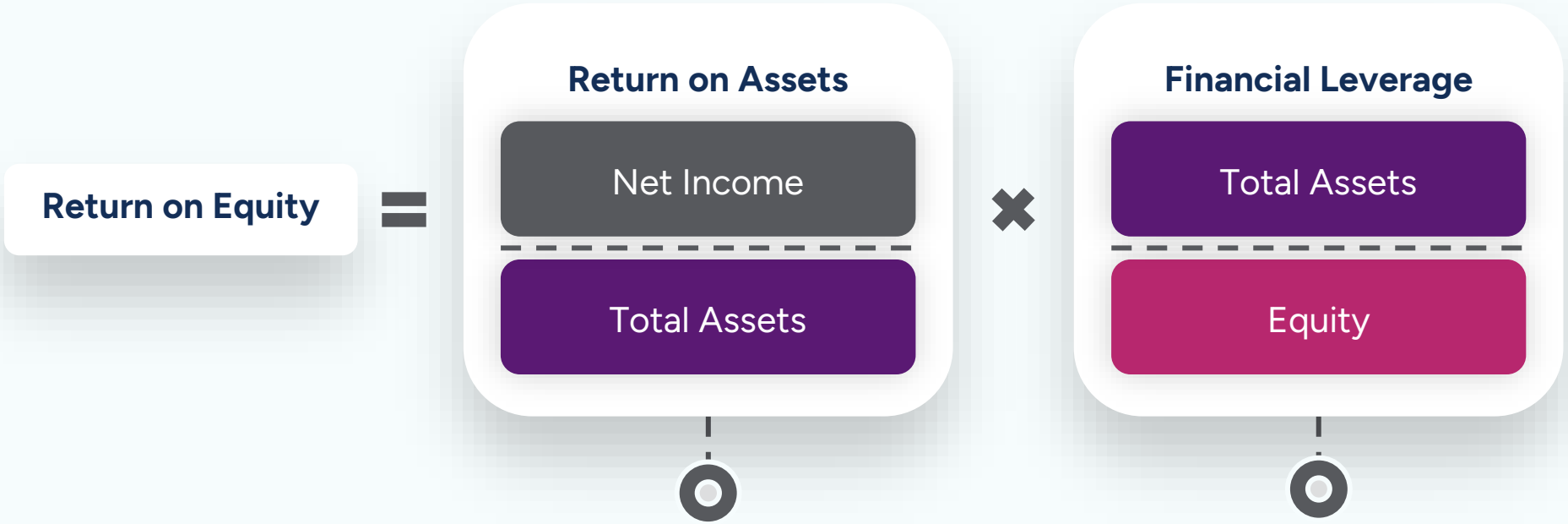

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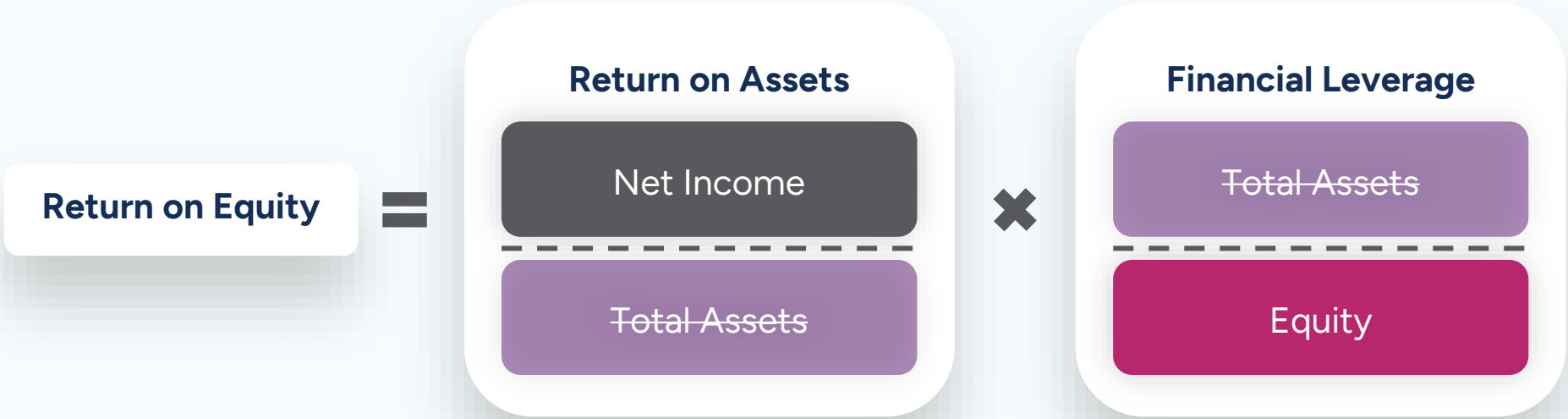

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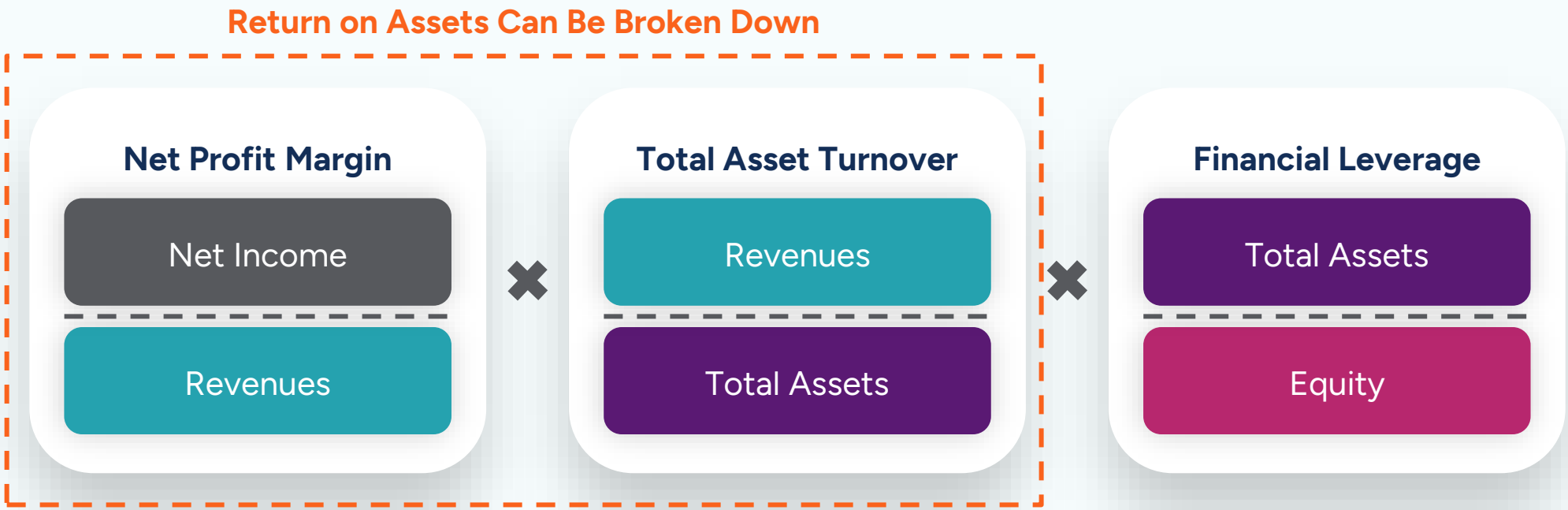

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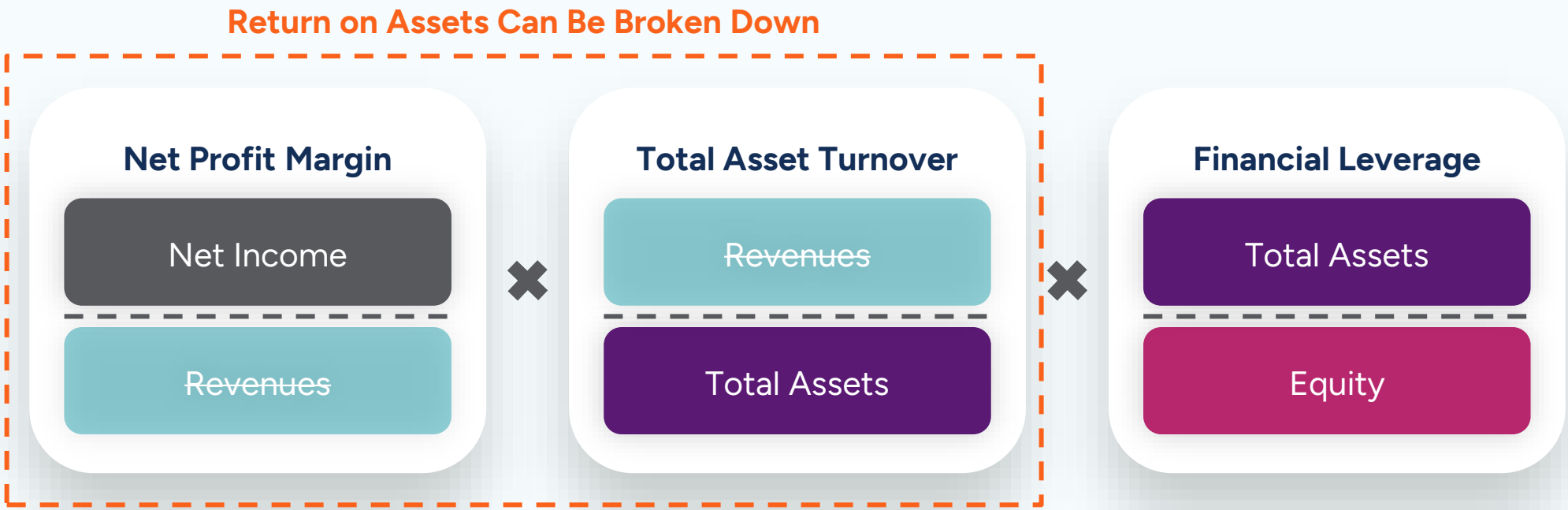

Breaking Down Net Profit Margin

The DuPont Pyramid of Ratios provides a structured approach to **understanding the factors driving a company's profitability and efficiency.**

Net Profit Margin Three Levers

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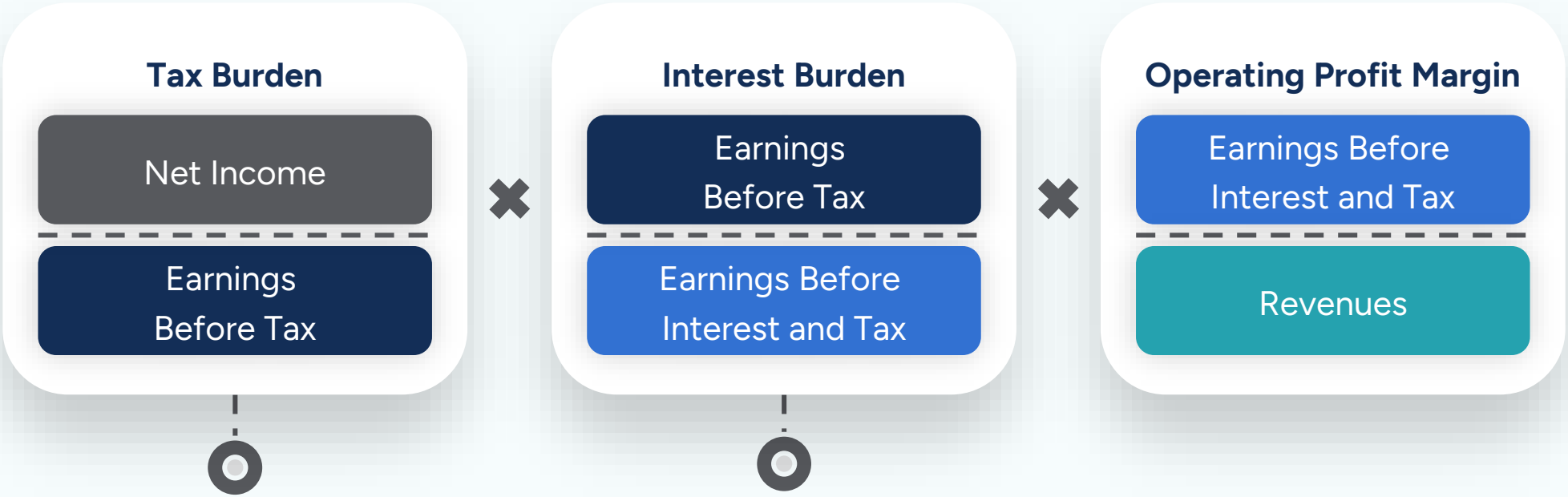
Tax Burden
Net Income
Earnings Before Tax
Interest Burden
Earnings Before Tax
Earnings Before Interest and Tax
Operating Profit Margin
Earnings Before Interest and Tax
Revenues
If taxes are zero, these two values would be equal, and the ratio would equal one
If debt is zero, these two values would be equal, and the ratio would equal one

Net Profit Margin Three Levers

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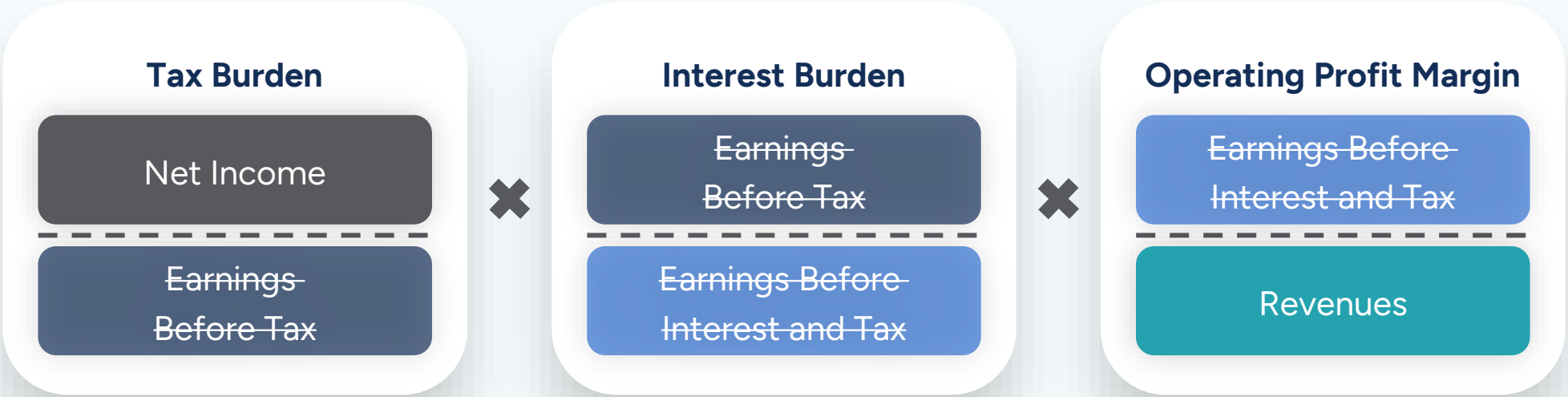

Net Profit Margin Three Levers

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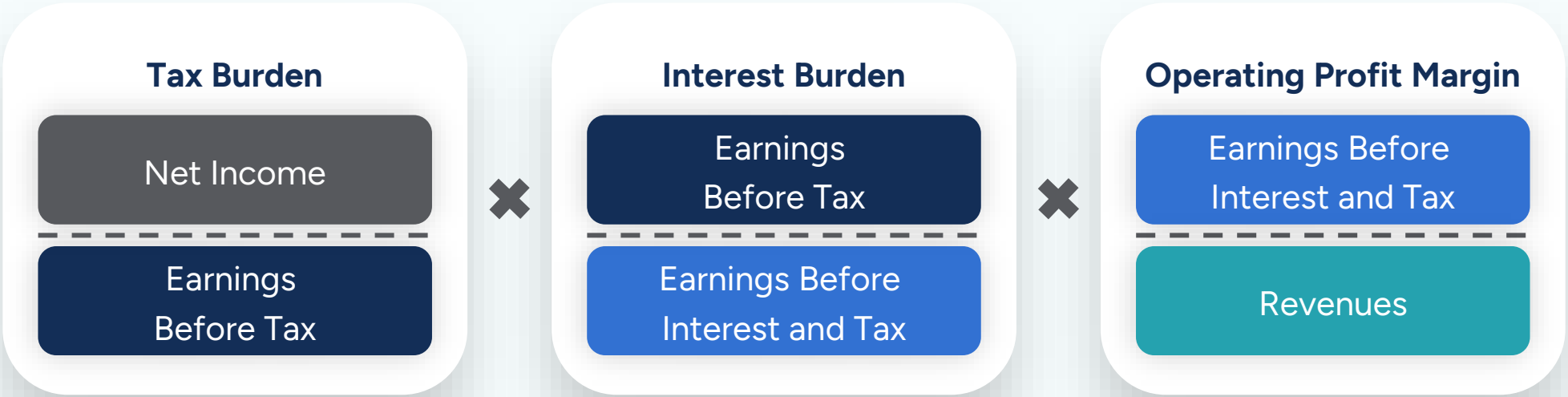

The Full Five Levers

The DuPont Pyramid of Ratios provides a structured approach to **understanding the factors driving a company's profitability and efficiency.**